PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-2808
SEPTEMBER 14, 1988

RESOLUTION

RESOLUTION G-2808, SOUTHERN CALIFORNIA GAS COMPANY REQUESTING APPROVAL OF A GAS TRANSMISSION SERVICE CONTRACT WITH AES PLACERITA, INC. FOR ENHANCED OIL RECOVERY USE; BY ADVICE LETTER 1800, FILED JUNE 27, 1988.

SUMMARY

1. By Advice Letter No. 1800, Southern California Gas Company (SoCal) submitted for approval a twenty (20) year Gas Transmission Service Contract with AES Placerita, Inc. (AES), in accordance with Decision (D.) 86-12-009 and Rate Schedule GLT, Long Term Transportation of Customer-Owned Gas. This resolution approves the contract.

BACKGROUND

1. SoCal Rate Schedule GLT is applicable to long-term transportation of customer-owned natural gas for use in Enhanced Oil Recovery (EOR) facilities as provided by Decision 86-12-009. This includes gas used for combined EOR/cogeneration facilities, service is to be provided under the terms of a negotiated Gas Transmission Service Contract. Transportation service under this schedule is limited to volumes equal to or in excess of 250,000 therms per year to each customer's premises.

2. The rate schedule provides that the Utility and customer negotiate a transmission rate, a Customer Charge and an appropriate escalation factor to be stated in the contract. A separate priority charge may be negotiated, a Demand Charge component also may be included. The negotiated transmission rate may be set neither below the floor rate (short run marginal cost) nor above the ceiling, default rate (long run marginal cost).

3. The rate also will include any applicable taxes, fees, regulatory surcharges, intra-or-interstate pipeline charges

imposed as a result of transporting gas under the schedule. The treatnent of imbalances that occur when the customer delivers more or less gas into the utility system than it accepts on redelivery must be specifically provided for in the contract.

4. To renew the terms of service under the contract, notice from the customer is required at least fifteen days prior to expiration. Renewal is subject to available capacity on the Utility system as determined by the utility. At the end of the initial term, the original rate will be revised to an appropriate negotiated rate.

5. Customers may receive service under the GLT schedule (a) separately or (b) in combination with an applicable sales rate schedule. Where service is rendered under (b), a separate monthly customer charge is applicable for service under each schedule. If service is rendered under (a), the customer must still meet the terms and conditions of the customer's otherwise applicable sales rate schedule.

6. AES is a Delaware Corporation operating EOR related cogeneration facilities in SoCal Gas' territory. The volumes to be transported under this contract will be a maximum of 258,500 therms per day for EOR cogeneration use, beginning July 1, 1988.

SUMMARY OF CONTRACT TERMS

1. This contract is submitted by SoCal for approval under the terms of Schedule GLT as provided by D. 86-12-009.

2. The contract contains rates and charges which are summarized below:

a. Customer Charge: The customer shall pay a Monthly Customer Charge of five hundred dollars ($500.00) per premise.

b. Transmission Charges: The customer shall pay a Transmission Charge of 3.785¢ for each therm of gas accepted at SoCal's points of delivery.

c. Escalation: The Transmission Charge under the Contract will be escalated on January 1, 1989 and on each January 1 thereafter by an escalation factor equal to changes in SoCal's total authorized margin from the prior year. In any event, the charge shall not be increased by less than 3% or more than 5% of the then current rate.

3. Service Term: The term of the contract is twenty (20) years as requested by AES, and may be extended by mutual agreement of the parties for an additional five (5) years, subject to the availability of capacity as determined by SoCal Gas.

4. Minimum Transmission Obligation: There is no fixed demand charge, however, AES is required to transport, and/or to purchase from SoCal not less than 75% of its annualized contract quantity. If this quantity is not transported or purchased by AES, AES will pay the transmission costs for this minimum quantity. Make-up is allowed in the two-year period following the underdelivery, however, the right to make-up only extends for one year after contract termination.

5. Surcharges: There is a 0.297 cent per therm surcharge for gas transported over the El Paso system unless AES demonstrates to SoCal that it is exempt from the FERC settlement in Docket No. RP86-45-00. There is a state regulatory surcharge of 0.068 cents per therm.

6. Interruption of Service: Customer's priority of service shall be established under Tariff Rule 23 or any succeeding version. In the case of a capacity shortage the customer shall be curtailed on the basis of the customer's priority charge. If the priority charge is zero, curtailment will occur according to the end-use priority system.

DISCUSSION

1. The Commission segregated EOR customers from other ratepayers in Decision 85-12-102, allowing the utilities the negotiating flexibility they required to meet the needs of their EOR customers and to meet the competition of the interstate pipeline proposals. The Commission limited the escalation rate to a range of three to five percent, but added further that the "utilities will be free to negotiate any type of appropriate escalation factors (such as an escalation index based on changes in field crude oil prices) or other rate provisions as appropriate for EOR customers."

2. D.85-12-102 set contract term minimums at 5 years, envisioning contract terms up to 20 years. No conditions were placed on the utilities to establish contract reopeners, but instead, the utilities were urged to negotiate the best terms possible with this new, emerging market.

3. D.85-12-102 also stated that "should a negotiated rate ever become less than the floor described above (3¢ per therm at the time), shareholders will be at risk for making

up the deficiency." And, Finding 54 (at p.46) states: "A 50% take-or-pay provision is a reasonable condition to all long-term transportation agreements in order to encourage transportation customers to transport their own gas for the entire life of their contract."

4. In an continuing effort to support the utilities in negotiating EOR contracts at substantially competitive rates so that the EOR customers would be retained on the utility systems. The Commission determined that all EOR revenues were to be treated as incremental. D. 86-12-009 established that the floor for this market was to be the variable cost of transmission, then estimated at 1¢ per therm. D.87-05-046 changed the incentive mechanism established in D.85-12-102[1] to reflect this lower floor rate of 1¢ per therm, and to allocate revenues above the floor rate 5% to shareholders and 95% to ratepayers.

5. The Commission requires that each long-term contract be submitted individually for review. This procedure was instituted to protect ratepayers from some of the risks inherent in long-term contracts that offer pricing certainty. It also assures that the Commission is regulating these contracts directly so that they are consistent with all effective regulations and guidelines.

6. The staff of the Commission Advisory and Compliance Division (CACD) has reviewed the terms of the contract and has determined that it is in compliance with Commission Decisions 85-12-102, 86-12-009, 87-05-046 and 87-12-039, the gas implementation decision.

9. Public notification of this filing has been made by mailing copies of the advice letter to other utilities, governmental agencies, and to all interested parties who requested them.

10. No protests have been received by CACD.

FINDINGS

1. The enhanced oil recovery market currently represents the largest new market for natural gas in California. It is

---

[1] Previously, based on the 3¢ floor set in D.85-12-102, the incentive mechanism was applied to amounts collected above 3¢ per therm, allocating 25% of any overage to shareholders and 75% to ratepayers.

a benefit to all California ratepayers for this market to be served through utility service.

2. The proposed contract under which SoCal Gas will provide service to AES will maintain utility transportation of gas to the EOR market, is a benefit to all ratepayers in accordance with Decisions 85-12-102, 86-12-009, 86-12-010, and 87-12-039.

IT IS ORDERED, that:

1. Southern California Gas Company is authorized, under the provisions of Public Utilities Code Section 532, to enter into the contract with AES Placerita, Inc. for the transportation of natural gas as submitted by Advice Letter 1800.

2. Southern California Gas Company shall be required to furnish data on the volumes, price, and priority used for this contract, and the contribution to margin from this contract annually, and at the time of each revision in the transportation rate, beginning sixty (60) days after the first such revision. This information shall berevi sent to the Chief of the Energy Branch, Coommission Advisory and Compliance Division. and Compliance Division.

3. Advice Letter 1800 and the accompaning agreement shall be marked to show that they were approved by Commission Resolution G-2808.

4. This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting of September 14, 1988. The following Commissioners approved it:

Executive Director

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners